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#### **MEMORANDUM OF LAW**

DATE:

September 24, 2019

TO:

Honorable Council President Georgette Gómez

FROM:

City Attorney

**SUBJECT:** 

Utility Undergrounding Project Block 70 and Alvarado Estates

#### INTRODUCTION

The City of San Diego (City) is relocating overhead utility wires to underground conduit throughout the City, and removing the associated utility poles<sup>1</sup> through its Underground Utility Program (Program). The Program is funded through a surcharge paid by San Diego Gas & Electric Company (SDG&E) customers to SDG&E, which SDG&E then pays to the City. The City then pays SDG&E to design and construct Underground Utility Districts.<sup>2</sup>

A proposed Underground Utility District in the College West area named Project Block 70 includes a private gated community known as Alvarado Estates. You have asked this Office whether public funds may be used to underground utilities at Alvarado Estates.

#### **QUESTION PRESENTED**

Can the City use public funds to underground utilities at Alvarado Estates?

<sup>&</sup>lt;sup>1</sup> "Undergrounding" refers to the removal of overhead utility lines and the installation of underground facilities to serve existing customers. CPUC Tariff Rule 20 B, C, and D provide alternate methods for undergrounding utilities where Rule 20A's criteria is not met. See <a href="https://www.sdge.com/sites/default/files/elec\_elec-rules\_erule20.pdf">https://www.sdge.com/sites/default/files/elec\_elec-rules\_erule20.pdf</a>

<sup>&</sup>lt;sup>2</sup> SDMC § 61.0506 provides that the City may call for a public hearing to ascertain whether the public health, safety or general welfare requires the removal and undergrounding of utilities in a certain area. If City Council determines that undergrounding is required, that area is declared a utility undergrounding district. The Mayor, or his designee, is then authorized to establish schedules for the undergrounding work. Alvarado Estates was part of the proposed Underground Utility District Project Block 70, but the public hearing process has not occurred because of the issues addressed in this memorandum.

#### SHORT ANSWER

No. The funds the City receives for the Program from SDG&E are public funds. Using public funds to underground utilities along private streets within a gated community would be a prohibited gift of public funds. The presence of general utility easements along private streets does not establish a public purpose that would justify the use of public funds for undergrounding.

#### **BACKGROUND**

#### 1. SDG&E Franchise Agreements and the City's Underground Utility Program

In 1920, the City granted itself the right to sell a franchise<sup>3</sup> to erect and maintain poles or wires on public streets or highways for transmitting electricity for heat and power in the City. San Diego Ordinance O-7973 (Apr. 5, 1920). Later that year, the City granted to SDG&E "the franchise and authority to . . . erect and maintain poles, wires, conduit and pipes for wires for transmitting electricity for heat and power purposes along and upon all the public streets, alleys, highways and public places of The City of San Diego" for a period of time ending September 27, 1970. San Diego Ordinance O-8183 (Nov. 23, 1920). In exchange for the electric franchise rights, SDG&E was required to "pay, as rental for that portion or those portions of the streets, highways, roads or alleys exclusively occupied by [SDG&E] to . . . The City of San Diego, the aggregate sum of two per cent (2%) of the gross annual receipts." *Id*.

In 1967, the California Public Utilities Commission (PUC) adopted as tariff Rule 20A (Rule 20A) the requirement that California's investor-owned electric utilities convert part of their overhead lines to underground lines each year using around 2% of their gross receipts. Rule 20A funds can only be spent on projects that meet the PUC's "general public interest" criteria, which are generally overhead wires along major thoroughfares, or areas of particular scenic or recreational interest. *See* Rule 20A, § (1)(a). Because many areas within California do not fall within the criteria set forth by Rule 20A, the PUC may authorize electric utilities to charge their customers a surcharge to cover non-Rule 20A undergrounding.

In 1968, the City adopted Council Policy No. 600-08 (Policy 600-08) and the Underground Utilities Procedural Ordinance (UUP Ordinance) to establish the City's policy and program for undergrounding. Policy 600-08 and the UUP Ordinance recognize the City's right to require undergrounding. Notably, Policy 600-08 states that undergrounding is appropriate when it is "in the interest of public health, safety and welfare of the general public."

On December 17, 1970, the City again granted SDG&E a 50-year franchise effective January 17, 1971 (Electric Franchise), and in July 1972, the PUC approved SDG&E's franchise fee surcharge application and authorized SDG&E to collect a franchise fee surcharge as a line item on rate payer bills.

<sup>&</sup>lt;sup>3</sup> A utility franchise is a contract between a city and a utility company that outlines certain requirements for the utility to use the city's public rights-of-way.

In late 2001, SDG&E and the City amended the Electric Franchise Agreement and entered into a Memorandum of Understanding (MOU) restructuring the SDG&E undergrounding obligation and increasing the surcharge to fund the Program. The PUC approved the surcharge increase in December 2002.

SDG&E collects the surcharge from City customers on a monthly basis whether or not they have overhead lines in their neighborhoods. Quarterly, SDG&E pays an amount equivalent to the franchise fee and the undergrounding surcharge to the City. The City deposits the franchise fee surcharge monies in the City General Fund, and the undergrounding surcharge monies in the Undergrounding Fund. The City expends funds from the Undergrounding Fund solely to pay for the undergrounding of utilities. As SDG&E completes Underground Utility Districts, it invoices the City and the City uses the Undergrounding Fund to pay those invoices.

When the City amended the Electric Franchise Agreement and entered into the MOU, it substantially revised the UUP and Policy 600-08 to use the Undergrounding Fund to pay for Underground Utility Districts in residential areas along public streets that are not eligible for Rule 20A funds and to eliminate the obligation of property owners along public streets to contract and pay for lateral conversions. The City also uses the Undergrounding Fund to pay for right-of-way restoration following Rule 20A Projects.

#### 2. Alvarado Estates

In 1997, the San Diego City Council (Council) approved vacating the public streets within Alvarado Estates at the request of its residents and Alvarado Estates became a private gated community. San Diego Resolution R-288715 (May 27, 1997) (attached). The streets were vacated "to allow for the installation of gates at the intersection of Yerba Santa Drive and Mesquite Road in order to secure the area and prevent non-local traffic from entering the Alvarado Estates Community." City of San Diego, Minutes for Regular Council Meeting, May 27, 1997. The resolution expressly reserves general utility easements from the vacation, and access for City and emergency vehicles. According to the resolution, Alvarado Estates is responsible for maintaining the streets, sidewalks, streetlights, storm drains, and providing for trash collection.

#### **ANALYSIS**

#### I. THE CITY IS PROHIBITED FROM MAKING ANY GIFT OF PUBLIC FUNDS.

The City has been asked whether public funds may be used to underground utilities at Alvarado Estates. Proponents of using public funds for this purpose assert that the City still maintains general utility easements along these private streets. The San Diego City Charter (Charter) prohibits the gift of public funds. Charter section 93 states, in relevant part, that "[t]he credit of the City shall not be given or loaned to or in aid of any individual, association or corporation; except that suitable provision may be made for the aid and support of the poor." This Office has previously opined that this provision is similar to article XVI, section 6 of the

<sup>&</sup>lt;sup>4</sup> The PUC specifically found that the surcharge should be billed and collected from all customer classes. Public Utilities Commission of the State of California Resolution E-3788 (December 19, 2002).

Constitution, and the cases interpreting that constitutional provision are relevant in interpreting the Charter provision. *See* 1979 Op. City Att'y 8 (79-2; Mar. 2, 1979); 1979 City Att'y MOL 168 (Sept. 4, 1979); 1952 Op. City Att'y 23 (Feb. 27,1952).

An expenditure of public funds that benefits a private party constitutes an impermissible gift if the public agency does not receive adequate consideration in exchange or if the expenditure does not serve a public purpose. 2011 City Att'y Report 17 (11-17; Apr. 7, 2011), referencing *People v. City of Long Beach*, 51 Cal. 2d 875, 881-83 (1959); *Emps. Assn. v. Sunnyvale Elementary Sch. Dist.*, 36 Cal. App. 3d 46, 59 (1973); *Allen v. Hussey*, 101 Cal. App. 2d 457, 473-74 (1950):

[T]he true test is that which requires that the work should be essentially public and for the general good of all the inhabitants of the city. It must not be undertaken merely for gain or for private objects. Gain or loss may incidentally follow, but the purpose must be primarily to satisfy the need, or contribute to the convenience, of the people of the city at large.

Bank v. Bell, 62 Cal. App. 310, 330 (1923); see also Perez v. City of San Jose, 107 Cal. App. 2d 562, 566 (1951). <sup>5</sup>

## II. THE MONEY THE CITY RECEIVES FOR UNDERGROUNDING IS PUBLIC FUNDS.

A city may derive revenue by granting utility franchises. 15 McQuillin Mun. Corp. § 39:3 (3d ed.). A utility franchise is a privilege to use public streets or rights-of-way in connection with the utility's provision of services to residents within the government entity's jurisdiction. *Jacks v. City of Santa Barbara*, 3 Cal. 5th 248, 254 (2017). Charter section 105 requires that the City be paid compensation in return for granting a franchise.

A franchise fee is the purchase price of the franchise paid by the franchisee to the municipality. City & Co. of S.F. v. Market St. Ry. Co., 9 Cal. 2d 743, 749 (1937). Surcharge funds are part of the compensation paid for the right to use a city's rights-of-way. Jacks v. City of Santa Barbara, 3 Cal. 5th at 267. The PUC has found that that once the City receives a franchise fee, that money is no longer ratepayer money and the City is free to use it as it sees fit except where the City's actions may overlap the PUC's jurisdiction over SDG&E's corporate actions. Public Utilities Commission of the State of California Resolution E-3788 (December 19, 2002). The funds deposited in the Undergrounding Fund are part of the consideration that SDG&E provides to the City under the franchise agreement, which makes them public funds.

<sup>&</sup>lt;sup>5</sup> City Council Policy 600-08 is consistent: "[i]t shall be the policy of the Council to: [e]xercise the City's police powers to order, and enforce as necessary, utility companies to convert overhead utilities to underground when it is in the interest of the *public* health, safety and welfare of the *general public*" and projects "[s]hall consist of project 'blocks' composed of *public* residential streets and *public* alley ways to be undergrounded." Council Policy 600-08 (emphasis added). The UUP Ordinance defines overhead lines as those "located above ground upon, along, across, or over the streets, alleys and ways of the City." San Diego Municipal Code § 61.0504(e).

Here, the consideration paid by SDG&E to the City for use of the City's franchise are public funds. Using public funds to enrich Alvarado Estates, a private gated community, would be a violation of Charter section 93.

# III. UNDERGROUNDING AT ALVARADO ESTATES WOULD BE A PROHIBITED GIFT OF PUBLIC FUNDS BECAUSE IT DOES NOT BENEFIT THE GENERAL PUBLIC.

There are aesthetic benefits to property owners when overhead lines are removed and placed underground. A city has the authority to regulate aesthetics in its right-of-way. *Sprint PCS Assets, L.L.C. v. City of Palos Verdes Estates, 583 F.3d 716 (2009)*. The California Constitution provides: "A county or city may make and enforce within its limits all local, police, sanitary, and other ordinances and regulations not in conflict with general laws." (Cal. Const., art. XI, § 7). "Often referred to as the 'police power,' this constitutional authority of counties or cities to adopt local ordinances is "the power of sovereignty or power to govern—the inherent reserved power of the state to subject individual rights to reasonable regulation for the general welfare. [Citation.] The local police power generally includes the power to adopt ordinances for aesthetic reasons." *T-Mobile West LLC v. City and County of San Francisco*, 3 Cal. App. 5th 334, 346–47 (2016), as modified on denial of reh'g (Oct. 13, 2016), aff'd 6 Cal. 5th 1107 (April 4, 2019).

Undergrounding utilities likely increases property values and makes the lines less susceptible to environmental stressors. Although a city has the authority to regulate aesthetics in the public right-of-way, to make improvements to a private property requires a public purpose to support an expenditure of public funds.

Undergrounding the utilities along the Alvarado Estates' private rights-of-way would improve the aesthetics and the integrity of the private streets and rights-of-way, and probably increase the property values. But these are benefits that inure only to the property owners in this private community. Because Alvarado Estates is a private community that is necessarily made up of private sidewalks and streets, the improved aesthetics and integrity of the utilities are not enjoyed by the public at-large because the public at-large is prohibited from using these private rights-of-way. Using the public undergrounding funds to underground utilities at Alvarado Estates would serve that private community of homes, but would not provide for the general good of all the inhabitants of the City. We recognize that SDG&E customers in Alvarado Estates are indirectly contributing to the City's Program through their electric bills, but there is no exception in state or local law that would allow the City to spend public funds under these circumstances. For these reasons, we conclude that using surcharge funds to underground the utilities at Alvarado Estates would be an improper gift of public funds. <sup>6</sup>

<sup>&</sup>lt;sup>6</sup> The residents of Alvarado Estates may make use of Section G of Council Policy 600-08 which provides for the "underground conversion in situations other than those meeting one of the criteria for conversion of company expense" through the use of assessment district proceedings.

## IV. THE PRESENCE OF A GENERAL UTILITY EASEMENT DOES NOT ESTABLISH A PUBLIC PURPOSE.

Generally, every citizen has the right to use the public right-of-way. The vacation of a street, highway, or public service easement extinguishes all public easements therein, except that public utility easements may be expressly reserved. Cal. Sts. & High. Code §§ 8350, 8340. California Streets and Highways Code section 8340(c) specifically requires that public utility easements be reserved from a street vacation where there are public utility facilities in use. The May 27, 1997 vacation extinguished all public easements in Alvarado Estates, except that it reserved a general public utility easement.

Alvarado Estates was made private with the exception that public utilities may enter to construct, maintain or operate their facilities, etc. and the City may enter "for City construction or maintenance vehicles and emergency vehicles of all kinds." San Diego Resolution R-288715 (May 27, 1997).

The intent of the vacation was to prevent the public from entering the community. This intent is further supported by the fact that the Alvarado Community Association agreed to maintain all the vacated rights-of-way, including pavement, curbs, gutters, sidewalks, street lights, etc. San Diego Resolution R-288715 (May 27, 1997).

An easement creates a nonpossessory right to enter and use land in another's possession and obligates the possessor not to interfere with the uses authorized by the easement. 12 Witkin, Summary of California Law, Real Property § 396 (11th ed. 2018). Where an easement is for public access over private property, then public funds may be used to improve the easement, and the improvements are not a gift of public funds. See 80 Op. Cal. Att'y Gen. 56, (1997). The California Attorney General opined that public funds may be used to repair and maintain an unpaved road located on private property if the general public has a "prescriptive use easement" to travel on the road. Id. In that matter, the public had traveled on the road for 100 years, thus constituting a prescriptive easement to travel on the road.

Here, the streets and sidewalks of Alvarado Estates are private. The community is gated to prevent entry by the public. The May 27, 1997 vacation did not reserve a right for public access. These facts do not support a finding that the public has a prescriptive easement or any other right to travel along the streets and sidewalks of Alvarado Estates.<sup>7</sup>

The utility easement allows public utilities and the City to enter Alvarado Estates only for the reasons stated. The easement obligates Alvarado Estates property owners to not interfere with those specific uses. However, the easement does not obligate the City or any public utility to underground utilities. The easement does not serve as a vehicle to include Alvarado Estates in Undergrounding Project 70.

<sup>&</sup>lt;sup>7</sup> The letter authored by attorney Marshall A. Lewis dated February 8, 2019 implies that the Alvarado Estates Community may have trails or paths other than the private streets and sidewalks discussed herein. If there are public access easements within the community, the City may be able to improve those easements, however the City cannot improve private streets that are not open to the public.

#### CONCLUSION

Alvarado Estates is a private, gated community. Using City funds to underground utilities in Alvarado Estates would be an improper gift of public funds, as this would not be for the general good of all the inhabitants of the City because the streets and sidewalks of this community are closed to the general public. A general utility easement reserved when the public streets were vacated does not justify the use of public funds for undergrounding.

MARA W. ELLIOTT, CITY ATTORNEY

By <u>/s/Cassandra E. Mougin</u>
Cassandra E. Mougin
Deputy City Attorney

CEM:cem:cw ML-2019-1 Doc. No. 2177999

Attachment: San Diego Resolution R-288715 (May 27, 1997)

## Attachment

### RESOLUTION NUMBER R- 288715

### ADOPTED ON MAY 27 1997

VACATION OF YERBA SANTA DRIVE (NORTH OF MESQUITE ROAD), MESQUITE ROAD (WEST OF YERBA SANTA DRIVE), NORRIS ROAD, ARMIN WAY, TOYON DRIVE, TOYOFF WAY, EE BARRON ROAD, AVION WAY, FREMONTIA LANE, PALO VERDE TERRACE, AND AN UNIMPROVED STREET RESERVATION.

WHEREAS, a petition to vacateYerba Santa Drive (north of Mesquite Road) in Maps 2789 and 2823, Mesquite Road (west of Yerba Santa Drive) in Map 2789, Norris Road in Maps 5185 and 3509, Armin Way in Map 3509, Toyon Drive and Toyoff Way in Map 2823, Le Barron Road and Avion Way in Map 5185, Fremontia Lane and Palo Verde Terrace in Map 2823, and an unimproved street reservation in Map 2879 has been submitted pursuant to California Streets and Highways Code Section 8321; and

WHEREAS, there is no present or prospective use for the streets, either for the public street system for which the rights-of-way were originally acquired or for any other public use of a like nature that can be anticipated in that the right-of-way is not needed for public street, bikeway, or open space purposes; and

WHEREAS, the public will benefit from the vacation through reduced maintenance and liability; and

WHEREAS, the vacation is not inconsistent with the General Plan or an approved Community Plan; and

WHEREAS, the public street system for which the right-of-way was originally acquired will not be detrimentally affected by this vacation; and

WHEREAS, in connection with said vacation, the City desires to reserve certain public service and emergency access easements; and

WHEREAS, the owners of the properties which abut the streets have, in addition to the rights of the public, certain private rights which belong to them as owners of the abutting property, including rights-of-way for ingress and egress to the general system of public streets; and

WHEREAS, pursuant to the California Streets Highways and Code Sections 8352 and 8353 the vacation will not affect nor extinguish the abutting property owners' private easements of ingress or egress; and

WHEREAS, the recording of a certified copy of this resolution shall serve as the verified notice referred to in the California Streets Highways and Code Sections 8352 and 8353 for private easements, other than private easement of ingress and egress, claimed by reason of the purchase of a lot; and

WHEREAS, the abutting property owners intend to grant to the Alvarado Estates

Homeowner's Association (the "Association") the right to maintain their private easements of
ingress and egress, the right to maintain all existing drainage facilities within and adjacent to the
private easements of ingress and egress, the obligation of trash collection and the obligation of
holding the City harmless for such maintenance and obligations; NOW, THEREFORE,

BE IT RESOLVED, by the Council of The City of San Diego, as follows:

1. That Yerba Santa Drive (north of Mesquite Road) in Maps 2789 and 2823, Mesquite Road (west of Yerba Santa Drive) in Map 2789, Norris Road in Maps 5185 and 3509, Armin Way in Map 3509, Toyon Drive and Toyoff Way in Map 2823, Le Barron Road and Avion Way

in Map 5185, Fremontia Lane and Palo Verde Terrace in Map 2823, and an unimproved street reservation in Map 2879, as more particularly shown on the attached drawing marked Exhibit "A", on file in the office of the City Clerk as Document No. RR-288715-(, which drawing is made a part hereof, be, and the same is hereby ordered, vacated.

- 2. That The City of San Diego hereby reserves and excepts from this vacation:
- a. An easement for constructing, maintaining, and operating public utilities and all necessary appurtenances thereto, together with the right to protect from all hazards the use of any right hereby reserved including the right to maintain said easement free and clear of any excavation or fills, the erection of any building or other structures, the planting of trees thereon, or the drilling or digging of any wells thereon.
- b. An access easement with the right of ingress and egress for City construction or maintenance vehicles and emergency vehicles of all kinds.
- c. General utility easements, for any public utility, pursuant to any existing franchise or renewals thereof, at any time, or from time to time, to construct, maintain, operate, replace, remove, renew, and enlarge overhead or underground lines of pipe, conduits, cables, wires, poles, and other structures, equipment, for the transmission of communication signals, and the distribution of electrical energy and natural gas, and incidental purposes, including access to the easement area for installation, inspection, or maintenance of facilities together with the right to maintain the easement area free from all hazards conflicting with the safe enjoyment of the easement rights.
- 3. That the easements reserved herein are in, under, over, upon, along and across those portions of Yerba Santa Drive (north of Mesquite Road), Mesquite Road (west of Yerba Santa

Drive), Norris Road, Armin Way, Toyon Drive, Toyoff Way, Le Barron Road, Avion Way, Fremontia Lane, Palo Verde Terrace, as more particularly shown and delineated on the attached drawing marked Exhibit "A", on file in the Office of the City Clerk as Document No. RR-

288715-1

- 4. That pursuant to the provisions of the Municipal Code, the City Engineer may issue an Encroachment Permit for the construction of designated and necessary private improvements within the reserved easement which do not conflict with the City's or other easement holder's enjoyment of their rights.
- 5. That the community known as Alvarado Estates and further identified and shown on said Exhibit "A" is approved by this Council as a limited access, gated community subject to the specific provisions of this document, the Municipal Code, and existing Council Policy.
- 6. That the resolution shall not become effective unless and until the following conditions have been met:
- a. The applicant has assured by permit and bond, the design and installation of the entry gate configuration with supporting improvements to include curbs, gutters, pedestrian ramps, sidewalks, paving, dedication of public right-of-way as necessary and street signs for the private streets satisfactory to the City Engineer and the Fire Chief (except as approved by the City Council in paragraph 7 below).
- b. The Association shall provide keyed access through the gate to the interior streets satisfactory to the City Engineer and components acceptable to the Fire Department and Police Departments for emergency access and to franchise utilities for the maintenance of their facilities.

- c. The existing street names shall be retained. Any change shall require City Council approval under Council Policy 600-12. In addition, a specific sign(s) shall be installed at the main gate entry identifying the streets within the gated area as private and providing that the liability and responsibility for the streets are that of the Association. The sign(s) shall be permanently posted and clearly visible to the public at large in a location satisfactory to the City Engineer.
- d. The Association has entered into an agreement with the City to maintain all of the vacated improved rights-of-way, and associated infrastructure including pavement, curb, gutter and sidewalk, maintain all existing drainage facilities within and adjacent to the areas proposed for vacation, maintain street lights, and to pay costs for electrical power for the street lights, to provide for private trash collection, and shall hold the City harmless from any litigation directly or indirectly related to the street vacations. The agreement shall be in a form approved by the City Attomey.
- 7. The City Council hereby finds that there is adequate stacking and turnaround areas provided on Alvarado Estates Street Vacation and Controlled Access Gates Design dated April 24, 1977 (a copy of which is attached as Exhibit "A" hereto) provided that:
- a. The Association shall agree to provide an attendant located at the controlled access gate's kiosk during normal business hours or shall have telephone numbers listed at the kiosk for a driver to call if access through the gate is needed (such as a large vehicle turnaround).
- b. The Association shall provide in its controller access gate regulations that "any Alvarado Estates resident intending to hold an event attended by more than fifty (50) people is required to have an attendant maintain the controlled access gate opened from thirty (30) minutes

before the start of the event until one (1) hour after the start of the event."

- 8. That if the above conditions are not completed within three years following the adoption of this resolution, then this resolution shall become void and be of no further force or effect.
- 9. That the City Engineer shall advise the City Clerk of the completion of the aforementioned conditions, and that the City Clerk shall then cause a certified copy of this resolution, attested by him under seal, with drawing, to be recorded in the Office of the County Recorder. The certified copy shall serve and constitute as verified notice referred to in the California Streets and Highway Code Section 8353.

APPROVED: CASEY GWINN, City Attomey

By These

Prescilla Dugard

Deputy City Attorney

PD:cdk

Or.Dept:Dev.Svcs

05/22/97

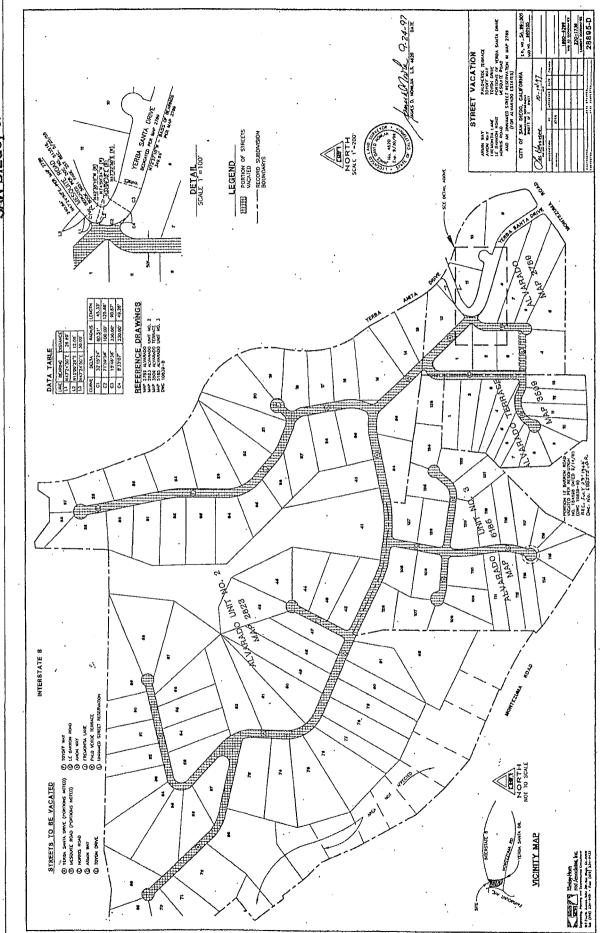
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EXHIBIT "A"



PROJECT: 095103.00